

**Improvements Are Needed to Ensure Large
Dollar Manual Refunds Are Issued Accurately
and Timely**

August 2003

Reference Number: 2003-30-183

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend: 1 = Tax return/Return information



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 29, 2003

MEMORANDUM FOR COMMISSIONER EVERSON

David R. Davis

FROM: for Gordon C. Milbourn III
Assistant Inspector General for Audit (Small Business and
Corporate Programs)

SUBJECT: Final Audit Report – Improvements Are Needed to Ensure Large
Dollar Manual Refunds Are Issued Accurately and Timely
(Audit # 200230051)

This report presents the results of our review of large dollar manual refunds.¹ The overall objectives of this review were to evaluate whether large dollar manual refunds were being processed appropriately and whether established controls were being followed in approving and issuing these refunds.

The Internal Revenue Service (IRS) issues refunds manually, rather than by computer, when taxpayers demonstrate significant need for refunds to be issued immediately rather than waiting for normal processing, or when refund amounts are so great that waiting for normal processing would result in significant interest charges to the Government. These large refunds warrant further review by IRS employees to ensure they are accurate before they are issued. The IRS issued \$62.8 billion in manual refunds in Calendar Year (CY) 2002, a significant increase from CY 2001 when \$38.5 billion was issued.

1-----

1-----, the incident prompted the Submission Processing Site to review and strengthen its controls over manual refunds. We initiated this audit to review controls over large dollar manual refunds issued to business taxpayers by the Cincinnati, Ohio, and Ogden, Utah, Submission Processing Sites, from which most of these manual refunds are issued.

¹ For purposes of this audit, we define large dollar manual refunds as those totaling \$1 million or greater.

In summary, we found that while controls over large dollar manual refunds were in place, we identified two areas where improvements need to be made to ensure that manual refunds are processed accurately and timely. We reviewed a judgmental sample of 72 closed cases consisting of paper, direct deposit, and wire transfer manual refund cases from the Cincinnati and Ogden Business Submission Processing Sites. We found that 13 cases (18 percent) had tax or interest computation problems amounting to \$238,324,164 where taxpayers were underpaid, and \$1,756,750 where taxpayers were overpaid. As we described in a prior audit report,² one cause for these errors is the complexity of manual interest calculations. Also, the officers approving the manual refund requests did not identify the computation errors. Finally, some manual refunds were being delayed due to incorrect or incomplete information contained on the forms used to request the refunds by electronic deposit.³ In the 88 rejected manual refund cases we reviewed, it took an average of 17 additional calendar days to properly reissue the rejected manual refunds. The amount of these rejected refunds was over \$730 million.

We recommended that the Commissioner of the IRS ensure that the Commissioners of the four operating divisions⁴ establish stronger management reviews over large dollar manual refund cases to ensure that final refund amounts and interest computations are accurate. This could be accomplished by establishing centralized staffs within the divisions or by appointing individual interest specialists within each division who are properly trained and perform interest calculations on a full-time basis. The Commissioners of the Large and Mid-Size Business (LMSB) and Small Business/Self-Employed (SB/SE) Divisions should coordinate to ensure that the 13 incorrect refund amount cases identified from this review are corrected. In addition, the Program Manager, Office of Penalties and Interest, SB/SE Division, should ensure that proper training materials are provided, quality reviews are performed, and Internal Revenue Manual procedures contain adequate instructions for computing interest on large dollar manual refund cases. Finally, the Commissioner, SB/SE Division, should coordinate with the Director, Tax Forms and Publications, Wage and Investment Division, to ensure that the forms used to request electronic deposits, Direct Deposit of Tax Refund of \$1 Million or More (Form 8302) or Direct Deposit of Corporate Tax Refund (Form 8050), include the financial institution information necessary to reduce the number of rejected electronic refunds.

Management's Response: IRS management agreed to the recommendations presented in this report. A SB/SE Division executive is leading a team that will study the feasibility of establishing specialized units at SB/SE Division sites to work interest computations on large dollar refunds. The Ogden Accounts Management Site has

² *The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations* (Reference Number 2002-30-042, dated December 2001).

³ Manual refunds can be issued by paper check or electronically, either by direct deposit or by same day wire transfer through the FEDWIRE network.

⁴ Our review was limited to case reviews within the Small Business/Self-Employed and Large and Mid-Size Business Divisions. However, IRS officials asked that this recommendation be elevated to the IRS Commissioner to ensure all operating divisions of the IRS were included.

worked with the LMSB Division on the majority of the 13 cases identified in the audit and will continue to work with the appropriate areas to resolve the remainder of the cases. Interest training covering basic through complex interest topics is being developed and is scheduled for publication by October 30, 2003. The revision of Forms 8302 and 8050 will include adding the bank name, address, and check boxes to both forms for better clarification of the routing number based upon the types of deposit being made.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or your staff may call Parker F. Pearson, Director (Small Business Compliance), at (410) 962-9637.

**Improvements Are Needed to Ensure Large Dollar Manual Refunds
Are Issued Accurately and Timely**

Table of Contents

Background	Page 1
Controls Were in Place, but Some Need to Be Strengthened to Ensure Manual Refunds Are Accurate	Page 3
<u>Recommendations 1 and 2:</u>	Page 4
<u>Recommendation 3:</u>	Page 5
Some Manual Refunds Are Being Delayed Due to Incorrect or Incomplete Information on Forms Requesting Electronic Refund Deposits	Page 5
<u>Recommendation 4:</u>	Page 6
Appendix I – Detailed Objectives, Scope, and Methodology	Page 8
Appendix II – Major Contributors to This Report	Page 10
Appendix III – Report Distribution List	Page 11
Appendix IV – Outcome Measures	Page 12
Appendix V – Management’s Response to the Draft Report	Page 13

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Background

Most refunds issued by the Internal Revenue Service (IRS) are generated automatically by its computer system. Generally, it takes weeks from the time a credit first becomes available on a taxpayer's account until a refund is issued. However, under certain circumstances, the IRS manually issues refunds. Rather than weeks, manual refunds can be issued to taxpayers in a matter of days. Manual refunds can be issued by paper check or electronically, either by direct deposit or by same day wire transfer through the FEDWIRE network.

Two of the most common reasons for manual refunds are:

- * Taxpayers demonstrate significant need for refunds to be issued immediately rather than waiting for normal processing.
- * Refund amounts are so great that waiting for normal processing would result in significant interest charges to the Federal Government. These large refunds warrant further review by IRS employees to ensure they are accurate before they are issued.

Although requests for manual refunds can originate in IRS field offices or in almost any operation of an IRS Campus,¹ the final processing must occur in the Accounting Operation at the IRS Submission Processing Sites.

1-----

1---- the incident prompted the Submission Processing Site to review and strengthen its controls over manual refunds.

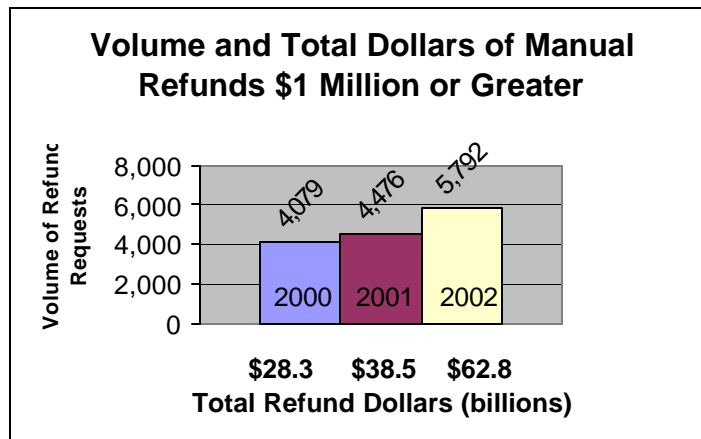
We initiated this audit to review controls over large dollar manual refunds² issued to business taxpayers by the two IRS Business Submission Processing Sites, from which most of

¹ The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

² For purposes of this audit, we define large dollar manual refunds as those totaling \$1 million or greater.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

these manual refunds are issued. In fact, the Accounting Operations at the Cincinnati, Ohio, and Ogden, Utah, Business Submission Processing Sites processed 90 percent of the nationwide Business Master File (BMF)³ manual refund requests of \$1 million or greater in Calendar Year (CY) 2002. The volume and the dollar amount of these refunds significantly increased during CY 2002.



Source: IRS BMF – Accounts with manual refunds \$1 million or greater for CYs 2000, 2001, and 2002 (through December 20, 2002).

Audit work was conducted at the Cincinnati, Ohio, and Ogden, Utah, Business Submission Processing Sites from September 2002 through May 2003. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Controls Were in Place, but Some Need to Be Strengthened to Ensure Manual Refunds Are Accurate

Although we found processing controls such as proper approval procedures, proper case control, and adequate instructions and procedures to be in place, we did find that some manual refunds were being issued for incorrect amounts. We reviewed a judgmental sample⁴ of 72 BMF manual refund requests processed at the Cincinnati and Ogden Business Submission Processing Sites. Of the 72 sample cases reviewed, 13 cases (18 percent) had incorrect refund amounts.⁵

Manually generated refund requests are required to be reviewed by an approving officer (manager or designated alternate) for accuracy. The reviewer must sign the request form to authorize the manual refund. Although reviews were done on the above error cases, the reviews did not identify the computation errors, most of which (12 of the 13) involved the calculation of interest.

In a prior audit report⁶ regarding manual interest calculations, we described how interest calculations may need to take into account multiple tax assessment amounts and dates, payment amounts and dates, penalties, accruals, specific tax laws, etc. In addition, many of the IRS employees manually calculating interest do so only a small percentage of their work time and, consequently, do not become skilled in applying the various rules associated with restricting, calculating, and documenting interest adjustments.

We believe the interest errors referred to in this report were also made because of the complexity of manual interest calculations. Of the 13 error cases identified above, only 1 involved a tax computation error while, as previously mentioned, the other 12 involved interest computation

⁴ Our sample consisted of closed manual refund cases \$1 million or greater and included each type of manually generated refund case (paper, direct deposit, and wire transfer cases).

⁵ The computation errors in these cases were verified by an IRS Complex Interest Specialist at the Ogden Accounts Management Site.

⁶ *The Internal Revenue Service Has Made Some Progress, but Significant Improvements Are Still Needed to Reduce Errors in Manual Interest Calculations* (Reference Number 2002-30-042, dated December 2001).

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

errors. These errors amounted to \$238,324,164⁷ where taxpayers were underpaid, and \$1,756,750 where taxpayers were overpaid.

Recommendations

1. The Commissioner of the IRS should ensure that the Commissioners of the four operating divisions⁸ establish stronger management reviews over large dollar manual refund cases to ensure that final refund amounts and interest computations are accurate. This could be accomplished by establishing centralized staffs within the various divisions or by appointing individual interest specialists within each division who are properly trained and perform interest calculations on a full-time basis. In either scenario, this review should be performed by a qualified technician prior to authorizing the refunds for processing.

Management's Response: An executive from the Small Business/Self-Employed (SB/SE) Division, Compliance function, is leading a team studying the feasibility of establishing specialized units at SB/SE Division sites to work interest computations on large dollar refunds. They expect to have their final recommendations within the next 90 days. They will share the team's recommendations with the Large and Mid-Size Business (LMSB), Tax Exempt and Government Entities, and Wage & Investment (W&I) Divisions to develop the next steps for addressing this issue.

2. The Commissioners of the LMSB and SB/SE Divisions should coordinate to ensure that the 13 incorrect refund cases identified in this review are corrected. Coordination should also involve personnel from the

⁷ One case amounted to about 99 percent of the total \$238,324,164 in understatements. The case involved complex tax and date issues and is currently controlled by the Area Director of Compliance (formerly the Examination Division).

⁸ Our review was limited to case reviews within the Small Business/Self-Employed and Large and Mid-Size Business Divisions. IRS officials asked that this recommendation be elevated to the IRS Commissioner to ensure all operating divisions of the IRS were included.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Ogden Accounts Management Site where corrective action has already been taken on most of the 13 cases. However, some of the cases were unable to be corrected because they are currently under control by other areas of the IRS.

Management's Response: Ogden Accounts Management has worked with the LMSB Division on the majority of the 13 cases identified in the audit. They will continue to work with the appropriate areas to resolve the remainder of the cases. Because some of the remaining cases have various compliance related problems, they could not provide a date when they will be resolved. However, Ogden Accounts Management will continue to work them until they are resolved.

3. The Program Manager, Office of Penalties and Interest, SB/SE Division, should ensure that proper training materials are provided, quality reviews are performed, and Internal Revenue Manual (IRM) procedures contain adequate instructions for computing interest on large dollar manual refund cases.

Management's Response: Interest training covering basic through complex interest topics is in the clearance process, with Chief Counsel providing technical review. The Interest Training courses are scheduled for publishing by the Learning and Education function, SB/SE Division, by October 30, 2003. In addition, the IRM will be revised to require a technical review of manual refunds over \$1,000,000 by a senior Interest Specialist before the refund is submitted to the Accounting function.

Some Manual Refunds Are Being Delayed Due to Incorrect or Incomplete Information on Forms Requesting Electronic Refund Deposits

Electronic deposits are requested on Direct Deposit of Tax Refund of \$1 Million or More (Form 8302) or Direct Deposit of Corporate Tax Refund (Form 8050). Between January 2002 and April 2003, records at 1 IRS Business Submission Processing Site showed that 88 electronic deposit manual refunds totaling over \$730 million were not processed timely. These refunds were rejected because taxpayers provided incorrect or incomplete financial information (bank routing number or account number) on these forms.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Several factors may have contributed to this problem. First, some financial institutions have one routing number for wire transfers and another routing number for direct deposits. If taxpayers are not aware of this fact, they may provide the routing number for a direct deposit when the actual deposit is to be made by wire transfer. The refund would be rejected because the routing number was not correct for the type of deposit being requested. Forms 8302 and 8050 do not provide for identification of the type of electronic transfer to be made. Also, Forms 8302 and 8050 no longer call for verification by bank personnel of the correct routing number. The forms no longer call for other information which was useful in correcting incomplete or inaccurate routing information, such as name and location of the financial institution to receive the electronic deposit, and an attached voided check or deposit slip.

Based on the 88 rejected manual refund cases reviewed, we found it took an average of 17 additional calendar days to properly reissue the rejected manual refunds. In some instances, the manual refunds had to be reissued by paper check rather than electronically.⁹ The benefits of an electronic deposit include a faster refund, the added security of a paperless payment, and the savings of tax dollars associated with reduced processing costs. These benefits may not be realized if the electronic deposits are rejected or delayed.

Recommendation

4. The Commissioner, SB/SE Division, should coordinate with the Director, Tax Forms and Publications, W&I Division, to ensure that Forms 8302 and 8050 include the financial institution information necessary to reduce the number of rejected electronic refunds. Check boxes should be added to the forms to indicate whether the deposit is a wire transfer or a direct deposit. This could help assist the IRS in determining the correct

⁹ Manual refunds can be issued by paper check or electronically, either by direct deposit or by same day wire transfer through the FEDWIRE network.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

routing number for the financial institution if that institution has different routing numbers for the different types of deposits (i.e., wire transfer versus direct deposit). In addition, the forms should specify the name of the financial institution, city, and state. A caution statement should also be added to both forms to alert the taxpayer that there could be two different routing numbers depending on the type of deposit being made.

Management's Response: Preliminary discussions were held between the SB/SE Division's Customer Account Services and the W&I Division's Business Tax Forms and Publications functions to discuss the revision of Forms 8302 and 8050. They agreed that the Tax Forms and Publications function would add the bank name, address, and check boxes to both forms. They will continue to explore various wire transfer and direct deposit options to make it less confusing to taxpayers.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Appendix I

Detailed Objectives, Scope, and Methodology

Our overall objectives were to evaluate whether large dollar manual refunds¹ were being processed appropriately and whether established controls were being followed in approving and issuing these refunds. To accomplish our objectives, we:

- I. Determined the number of business returns with manual refunds \$1 million or greater.
 - A. Obtained a computer listing from the Internal Revenue Service (IRS) Business Master File² of accounts with manual refunds issued for \$1 million or greater during Calendar Years 2000, 2001 and 2002 (through December 20, 2002). In addition, we extracted the accounts with a cancelled refund check and also the accounts with an erroneous refund from the computer listing.
 - B. From the computer listing, we determined the number of accounts and refund dollar amounts for accounts with a manual refund issued for \$1 million or greater, along with any corresponding cancelled or erroneous refunds. Reviewed the corresponding cancelled or erroneous refund accounts.
- II. Determined whether instructions and procedures were adequate for reviewing and processing large dollar manual refunds by reviewing the Internal Revenue Manual, desk procedures, and any available training materials. We conducted walkthroughs of the manual refund processing areas at the Cincinnati, Ohio, and Ogden, Utah, Business Submission Processing Sites to identify any inconsistencies in processing.
- III. Determined the adequacy of inventory and transfer controls. Reviewed 88 rejected manual refund cases to determine what caused the rejection and what delays were experienced by having to reissue the rejected manual refunds.
- IV. Determined the adequacy of processing controls by analyzing daily processing procedures and whether review procedures were being used. Reviewed manual refund request forms to determine whether the forms could be revised to make the refund approval and/or processing procedures more effective and efficient.

¹ For purposes of this audit, we define large dollar manual refunds as those totaling \$1 million or greater.

² The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

**Improvements Are Needed to Ensure Large Dollar Manual Refunds
Are Issued Accurately and Timely**

- V. Determined whether processing procedures were adequate to ensure that manual refund cases were processed accurately.
 - A. We analyzed 72 closed manual refund cases issued for \$1 million or greater to determine whether the cases were processed correctly, refund amounts were correct, interest was calculated accurately, and any duplicate or erroneous refunds were issued. We selected a judgmental sample due to the volume of cases processed and time necessary to fully analyze each case. Our sample consisted of one closed case of each type of manual refund (paper, direct deposit, wire transfer) from each month processed at each IRS Business Submission Processing Site.

**Improvements Are Needed to Ensure Large Dollar Manual Refunds
Are Issued Accurately and Timely**

Appendix II

Major Contributors to This Report

Richard Dagliolo, Director
Parker F. Pearson, Director
Kyle R. Andersen, Acting Director
Larry Madsen, Audit Manager
Douglas C. Barneck, Senior Auditor
W. George Burleigh, Senior Auditor
Scott Critchlow, Senior Auditor
James E. Adkisson, Computer Specialist

**Improvements Are Needed to Ensure Large Dollar Manual Refunds
Are Issued Accurately and Timely**

Appendix III

Report Distribution List

Deputy Commissioner, Services and Enforcement N:SE
Commissioner, Large and Mid-Size Business Division LM
Commissioner, Small Business/Self-Employed Division S
Commissioner, Tax Exempt and Government Entities Division T
Commissioner, Wage and Investment Division W
Deputy Commissioner, Large and Mid-Size Business Division LM
Deputy Commissioner, Tax Exempt and Government Entities Division T
Deputy Commissioner, Wage and Investment Division W
Acting Deputy Commissioner, Small Business/Self-Employed Division S
Staff Assistant, Small Business/Self-Employed Division S
Director, Communication & Liaison, Small Business/Self-Employed Division S:M:CL
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Customer Account Service, Small Business/Self-Employed Division S:CAS
Director, Reporting Enforcement, Small Business/Self-Employed Division S:C:CP:RE
Program Manager, Office of Penalties and Interest, Small Business/Self-Employed Division
S:C:CP:RE:P
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:AR:M
Audit Liaisons:
 Commissioner N:C
 Commissioner, Large and Mid-Size Business Division LM
 Commissioner, Small Business/Self-Employed Division S
 Commissioner, Tax Exempt and Government Entities Division T
 Commissioner, Wage and Investment Division W

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- * Taxpayer Rights and Entitlements – Actual; \$238,324,164 in understated refunds on 8 taxpayer accounts (see page 3).

Methodology Used to Measure the Reported Benefit:

Selection of Sample –

We selected a judgmental sample of 72 closed manual refund cases processed during Calendar Year 2002 from the Cincinnati, Ohio, and Ogden, Utah, Business Submission Processing Sites.

Sample Results –

We determined that 8 of the 72 cases reviewed had errors that caused refunds on these cases to be understated by \$238,324,164.

Type and Value of Outcome Measure:

- * Cost Savings (Funds Put to Better Use) – Actual; \$1,756,750 in overstated refunds on 5 taxpayer accounts (see page 3).

Methodology Used to Measure the Reported Benefit:

Selection of Sample –

We selected a judgmental sample of 72 closed manual refund cases processed during Calendar Year 2002 from the Cincinnati and Ogden Business Submission Processing Sites.

Sample Results –

We determined that 5 of the 72 cases reviewed had errors that caused refunds on these cases to be overstated by \$1,756,750.

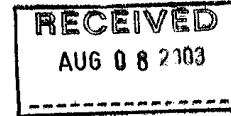
**Improvements Are Needed to Ensure Large Dollar Manual Refunds
Are Issued Accurately and Timely**

Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



AUG - 8 2003

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Dale F. Hart *Dale Hart by MBH/1,2*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely (Audit # 2002-30-051)

I have reviewed your draft report concerning large dollar manual refunds, and we appreciate the research and information provided. We are committed to assuring taxpayers receive refunds for the amounts to which they are entitled. As your audit stated, we have controls over large dollar manual refunds. However, the advent of "interest netting" as required by RRA98 has made interest computations, especially on business returns, much more complex. The interest on overpayments and underpayments must be "netted" so that the interest is charged at the same rate.

We established the Restricted Interest Team in Ogden in response to the challenge of interest netting. However, we agree that improvements are needed. Therefore, we have formed a group to research how we can improve our interest computations and possibly establish similar groups or expand the duties of the Ogden group.

We reviewed Form 8302, *Direct Deposit of Tax Refund of \$1 Million or More*, a few years ago. Based on feedback from practitioners and taxpayers, we deleted the requirement that banks include a deposit slip and verify their routing numbers for direct deposit or wire transfers. Although this reduced taxpayer burden, we did not anticipate the difficulty taxpayers would have in understanding the importance of supplying correct, detailed information such as the appropriate routing number for the deposit method (Fedwire transfer or ACH deposit) they have chosen. Therefore, we appreciate your feedback. We will reformat form 8302 to ensure taxpayers have the necessary instructions to receive their refunds as quickly as possible.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

Our comments on your recommendations follow:

RECOMMENDATION 1

The Commissioner of the IRS should ensure that the Commissioners of the four operating divisions establish stronger management reviews over large dollar manual refund cases to ensure that final refund amounts and interest computations are accurate. This could be accomplished by establishing centralized staffs within the various divisions or by appointing individual interest specialists within each division who are properly trained and perform interest calculations on a full-time basis. In either scenario, a qualified technician should perform this review prior to authorizing the refunds for processing.

CORRECTIVE ACTION

An executive from SB/SE Compliance is leading a team studying the feasibility of establishing specialized units at SB/SE sites to work interest computations on large dollar refunds. We expect to have their final recommendations within the next 90 days. We will share the team recommendations with the LMSB, TEGE and W&I Operating Divisions to determine next steps for addressing this issue.

IMPLEMENTATION DATE

February 15, 2004

RESPONSIBLE OFFICIALS

Director, Customer Accounts Services, Small Business/Self-Employed Division
Director, Compliance Services, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioners of the LMSB and SB/SE Divisions should coordinate to ensure that the 13 incorrect refund cases identified in this review are corrected. Coordination should also involve personnel from the Ogden Accounts Management Site where corrective action has already been taken on most of the 13 cases. However, some of the cases were unable to be corrected because they are currently under control by other areas of the IRS.

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

CORRECTIVE ACTION

Ogden Accounts Management has worked with LMSB on the majority of the 13 cases identified in the audit. They continue to work with the appropriate areas to resolve the remainder of the cases. Because some of the remaining cases have various compliance related problems, we cannot provide a date when they will be resolved. However, Ogden will continue to work them until they are resolved.

IMPLEMENTATION DATE

Because of the various compliance related problems on the remaining cases, we cannot provide a date.

RESPONSIBLE OFFICIALS

Deputy Director, Accounts Management, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

The Program Manager, Office of Penalties and Interest, SB/SE Division, should ensure that proper training materials are provided, quality reviews are performed, and Internal Revenue Manual (IRM) procedures contain adequate instructions for computing interest on large dollar manual refund cases.

CORRECTIVE ACTION

Interest training covering basic through complex interest topics is in the clearance process, with Chief Counsel providing technical review. The Interest Training courses are scheduled for publishing by our Learning and Education function by October 30, 2003.

We notified NTEU about establishing the Complex Interest Quality Measurement System (CIQMS), which will be utilized for collecting data on the accuracy of normal and restricted interest computations. CIQMS data will be used to identify system changes, training and educational needs, and improve work processes

We will revise IRM 20.2.4.7.3 covering manual refund interest processing to require a technical review of manual refunds over 1,000,000.00. A senior Interest Specialist will complete the review before the refund is submitted to the Accounting function. Guidance on this process will be issued through the Service-wide Electronic Research Program (SERP) pending publication of the IRM revision. Large dollar manual refunds will also be the focus of reviews conducted through CIQMS.

IMPLEMENTATION DATE

Interest Training - November 15, 2003

CIQMS - February 15, 2004

IRM 20.2.4.7.3 Revision - November 15, 2003

Improvements Are Needed to Ensure Large Dollar Manual Refunds Are Issued Accurately and Timely

RESPONSIBLE OFFICIALS

Director, Reporting Enforcement, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

The Program Manager, Office of Penalties and Interest will advise the Director Reporting Enforcement of any corrective action delays.

RECOMMENDATION 4

The Commissioner of the SB/SE Division should coordinate with the Director, Tax Forms and Publications, Wage and Investment Division, to ensure that Forms 8302 and 8050 include the financial institution information necessary to reduce the number of rejected electronic refunds. Check boxes should be added to the forms to indicate whether the deposit is a wire transfer or a direct deposit. This could help assist the IRS in determining the correct routing number for the financial institution if that institution has different routing numbers for the different types of deposits (i.e., wire transfer versus direct deposit). In addition, the forms should specify the name of the financial institution, city and state. A caution statement should also be added to both forms to alert the taxpayer that there could be two different routing numbers depending on the type of deposit being made.

CORRECTIVE ACTION

Preliminary discussions were held between SB/SE CAS and W&I Business Tax Forms and Publications to discuss the revision of Forms 8302 and 8050. We agreed that Tax Forms and Publications would add the bank name, address and check boxes to both forms. We continue to explore various wire transfer and direct deposit options to make it less confusing to taxpayers.

IMPLEMENTATION DATE

January 2004

RESPONSIBLE OFFICIAL

Deputy Director, Submission Processing, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

N/A

If you have any questions, please contact John Crawford, Director, Customer Account Services, at (972) 308-7010.